

**CITY OF PAULLINA, IOWA**  
**Paullina, Iowa**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION AND  
SCHEDULE OF FINDINGS AND RESPONSES**

**For the Year Ended  
June 30, 2007**

**CITY OF PAULLINA, IOWA  
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CITY OF PAULLINA, IOWA

OFFICIALS

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(Before January, 2006)

Name	Title	Term Expires
Paul Struve	Mayor	January, 2006
Patrick Hill	Mayor Pro-Tem	January, 2008
David Honkomp	Council Member	January, 2008
John Ihle	Council Member	January, 2008
Ed Bettin	Council Member	January, 2006
Garth Hurley	Council Member	January, 2006

(After January, 2006)

Name	Title	Term Expires
Marlo Ebel	Mayor	January, 2008
Patrick Hill	Mayor Pro-Tem	January, 2008
David Honkomp	Council Member	January, 2008
John Ihle	Council Member	January, 2008
John Muller	Council Member	January, 2008
Martin Weber	Council Member	January 2010
Sandy Fritz	City Clerk/Administrator	January, 2009
Johnene Altman	Treasurer	January, 2008
Tisha Halverson	Attorney	January, 2008

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Paullina  
Paullina, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Paullina, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted the audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits, contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Paullina, as of June 30, 2007 and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and 21 through 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2008 on our consideration of the City of Paullina's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Paullina's basic financial statements. Other supplementary information included in Schedules 1 and 2, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applies in our audit of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Williams & Leggett P. C.*  
Certified Public Accountants

January 24, 2008  
Le Mars, Iowa

**CITY OF PAULLINA, IOWA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

The City of Paullina provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

**2007 FINANCIAL HIGHLIGHTS**

- Total receipts of the Government-wide activities increased 46% or approximately \$800,770 from fiscal year 2006 to fiscal 2007.
- Disbursements increased 34.4% or approximately \$577,076 in fiscal 2007 from fiscal 2006.
- The City's total cash basis net assets increased 15.9% or \$270,389 approximately from June 30, 2006 to June 30, 2007.

**USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The City's Basic Financial Statements consist of a Government Wide Statement of Activities and Net Assets – Cash Basis, and Statements of Cash Receipts and Disbursements, Governmental Funds and Proprietary Funds. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the City's funds.

**BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items, and is another comprehensive basis of accounting. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**REPORTING THE CITY'S FINANCIAL ACTIVITIES**

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets – Cash Basis reports information which helps answer this question.

## Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The city maintains four Enterprise Funds to provide separate information for the Water Fund, Electric Fund, Sewer Fund and Telecom Fund.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$811,590 to \$945,027. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year Ended June 30,	
	2007	2006
Receipts and Transfers:		
Program Receipts:		
Charges for Service .....	\$ 142,029	\$ 118,724
General Receipts Operating Grants & Capital Grants		
Property Tax.....	254,210	226,642
Special Assessments .....	40,338	83,416
Tax Increment Financing Collections .....	19,176	21,039
Local Option Sales Tax .....	97,940	76,864
Intergovernmental .....	104,893	102,560
Use of Money and Property.....	47,251	51,806
Licenses and Permits .....	3,062	2,288
Other General Receipts .....	54,423	14,265
Sale of Capital Assets .....	--	500
Proceeds from Debt .....	509,094	--
Net Transfers .....	6,145	--
Total Receipts and Transfers	1,278,561	698,104
Disbursements:		
Public Safety .....	194,672	109,849
Public Works .....	378,086	144,941
Health and Social Services .....	3,850	3,750
Culture and Recreation .....	73,177	87,839
Community and Economic Development .....	90	1,651
General Government.....	65,456	68,662
Debt Service.....	92,168	73,863
Capital Projects .....	337,625	38,312
Net Transfers Out.....	--	83,132
Total Disbursements	1,145,124	692,999
Increase in Cash Basis Net Assets	133,437	5,105
Cash Basis Net Assets – Beginning of Year	811,590	806,485
Cash Basis Net Assets – End of Year	\$ 945,027	\$ 811,590

**Changes in Cash Basis Net Assets of Business Type Activities**

	<b>Year Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Receipts:		
Operating Receipts:		
Water .....	\$ 198,015	\$ 188,482
Electric .....	729,039	587,585
Sewer .....	125,866	100,549
Telecom .....	139,546	110,379
Interest .....	56,932	35,945
Net Transfers in .....	--	83,132
Total	<u>\$ 1,249,398</u>	<u>\$ 1,106,072</u>
Disbursements:		
Operating Disbursements:		
Water .....	\$ 144,965	\$ 154,120
Electric .....	562,091	534,071
Sewer .....	139,776	117,419
Telecom .....	950	50
Debt Service .....	258,519	258,822
Net Transfers Out .....	6,145	-
Total	<u>\$ 1,112,446</u>	<u>\$ 1,064,482</u>
Net Change in Cash Balance	<u>\$ 136,952</u>	<u>\$ 41,590</u>
Cash Basis Net Assets – Beginning of Year	<u>\$ 881,287</u>	<u>\$ 839,697</u>
Cash Basis Net Assets – End of Year	<u><u>\$ 1,018,239</u></u>	<u><u>\$ 881,287</u></u>

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Paullina completed the year, its governmental funds reported a combined fund balance of \$945,027, an increase of \$133,437 over last year's total of \$811,590. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$39,592 from the prior year due in large part to a donation of \$25,000 from a citizen.
- The Road Use Tax Fund cash balance decreased by \$159,105 during the fiscal year due to money being used to pay for development of the Business Park.
- The Urban Renewal Tax Increment Fund cash balance increased by \$1,505 during the fiscal year due to an increase in TIF revenues for the fiscal year.
- The Debt Service Fund cash balance increased by \$69,802 during the fiscal year due to an increase in the tax levy and the amount of Local Option Sales Tax transferred in.
- The Capital Projects fund cash balance increased by \$179,629 during the fiscal year due to the issuance of bonds to fund the projects in the Business Park.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$60,860 to \$318,641 due to an increase in water rates.
- The Electric Fund cash balance increased by \$25,794 to \$297,823 due to an increase in electric rates.
- The Sewer Fund cash balance decreased by \$16,446 to \$15,443 due to the use of funds for the sewer projects.
- The Telecom Fund cash balance increased by \$66,744 to \$386,332 due to an increase in the number of customers.



**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The City had sufficient cash balances to absorb these additional costs.

**DEBT ADMINISTRATION**

A comparison of the City's debt at June 30, 2007 to June 30, 2006 follows:

	Year Ended June 30,	
	2007	2006
G.O. Bonds and Notes.....	\$ 725,000	\$ 260,000
Special Assessment Notes .....	50,000	60,000
Sewer Revolving Loan Notes .....	50,000	98,000
Electric Revenue Notes .....	820,000	890,000
Telecommunication		
Revenue Notes .....	795,000	850,000
Total	<u>\$ 2,440,000</u>	<u>\$ 2,158,000</u>

**ECONOMIC FACTORS**

The City has completed the first phase of the business park. The City has started to sell lots to developers and plans to continue the development of the business park.

The Cities electric rates continue to increase to cover the supplier increases.

The City will be increasing the sewer rates beginning 7/1/07 to cover the costs of lining and repairing the cities sewer lines.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Sandy Fritz, City Clerk, Paullina, Iowa.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF PAULLINA, IOWA**  
**STATEMENT OF ACTIVITIES and NET ASSETS - Cash Basis**  
**For the Year Ended June 30, 2007**

Functions/Programs	Disbursements	Program Receipts	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government:</b>			
Governmental Activities:			
Public Safety	\$ 194,672	\$ 45,975	\$ -
Public Works	378,086	96,054	93,680
Health and Social Services	3,850	-	-
Culture and Recreation	73,177	-	-
Community and Economic Development	90	-	-
General Government	65,456	3,062	11,213
Capital Outlay	337,625	-	-
Debt Service	92,168	-	-
Total governmental activities	<u>1,145,124</u>	<u>145,091</u>	<u>104,893</u>
<b>Business-Type Activities:</b>			
Water Utility	144,965	198,015	-
Sewer Utility	191,882	125,866	-
Electric Utility	679,566	729,039	-
Telecom	89,888	139,546	-
Total Business-Type Activities:	<u>1,106,301</u>	<u>1,192,466</u>	<u>-</u>
Total Primary Government	<u>\$ 2,251,425</u>	<u>\$ 1,337,557</u>	<u>\$ 104,893</u>

**General Receipts:**

Property taxes  
Tax Increment Financing  
Local Option Sales Tax  
Special Assessments  
Interest  
Miscellaneous  
Proceeds on Bond Issues  
Interfund Transfers  
Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

**Cash Basis Net Assets**

**Restricted:**

Streets  
Urban Renewal Purpose  
Debt Service  
Business Park  
Other Purposes

**Unrestricted**

Total Cash Basis Net Assets

Net (Disbursements) Receipts and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (148,697)		\$ (148,697)
(188,352)		(188,352)
(3,850)		(3,850)
(73,177)		(73,177)
(90)		(90)
(51,181)		(51,181)
(337,625)		(337,625)
(92,168)		(92,168)
<u>(895,140)</u>		<u>(895,140)</u>
	\$ 53,050	53,050
	(66,016)	(66,016)
	49,473	49,473
	49,658	49,658
	<u>86,165</u>	<u>86,165</u>
<u>(895,140)</u>	<u>86,165</u>	<u>(808,975)</u>
254,210	-	254,210
19,176	-	19,176
97,940	-	97,940
40,338	-	40,338
47,251	56,932	104,183
54,423	-	54,423
509,094	-	509,094
6,145	(6,145)	-
<u>1,028,577</u>	<u>50,787</u>	<u>1,079,364</u>
133,437	136,952	270,389
811,590	881,287	1,692,877
<u>\$ 945,027</u>	<u>\$ 1,018,239</u>	<u>\$ 1,963,266</u>
\$ 177,046	\$ -	\$ 177,046
14,245	-	14,245
375,115	360,462	735,577
136,798	-	136,798
12,703	-	12,703
229,120	657,777	886,897
<u>\$ 945,027</u>	<u>\$ 1,018,239</u>	<u>\$ 1,963,266</u>

**CITY OF PAULLINA, IOWA**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS**  
**AND CHANGES IN CASH BALANCES**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

	General	Special Revenue	
		Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Taxes	\$ 164,610	\$ -	\$ -
Special Assessments	-	-	-
Licenses and Permits	3,062	-	-
Intergovernmental	11,213	93,680	-
Charges for Services	120,943	-	-
TIF Revenue	-	-	19,176
Local Option Sales Tax	-	-	-
Rental of City Property	21,086	-	-
Interest on Investments	19,908	-	1,029
Miscellaneous	52,923	-	-
Total Receipts	393,745	93,680	20,205
Disbursements:			
Public Safety	155,084	-	-
Public Works	125,148	252,785	-
Health and Social Services	3,850	-	-
Culture and Recreation	70,214	-	-
Community and Economic Development	90	-	-
General Government	64,358	-	-
Capital Outlay	-	-	-
Debt Service:			
Principal Retirement	-	-	-
Interest	-	-	-
Total Disbursements	418,744	252,785	-
Excess (Deficiency) of Receipts to Disbursements	(24,999)	(159,105)	20,205
Other financing sources (uses):			
Proceeds from Debt Financing	-	-	-
Transfers In	72,361	-	-
Transfers Out	(7,770)	-	(18,700)
Total other financing sources	64,591	-	(18,700)
Net Change in Fund Balances	39,592	(159,105)	1,505
Fund Balances (Deficit) Beginning of Year	189,528	336,151	12,740
Fund Balances End of Year	\$ 229,120	\$ 177,046	\$ 14,245

Debt Service	Capital Project Business Park	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 39,931	\$ -	\$ 49,669	\$ 254,210
40,338	-	-	40,338
-	-	-	3,062
-	-	-	104,893
-	-	-	120,943
-	-	-	19,176
-	-	97,940	97,940
-	-	-	21,086
18,759	6,660	895	47,251
-	1,500	-	54,423
99,028	8,160	148,504	763,322
-	-	39,588	194,672
-	-	153	378,086
-	-	-	3,850
-	-	2,963	73,177
-	-	-	90
-	-	1,098	65,456
-	337,625	-	337,625
60,000	-	-	60,000
32,168	-	-	32,168
92,168	337,625	43,802	1,145,124
6,860	(329,465)	104,702	(381,802)
-	509,094	-	509,094
106,876	-	-	179,237
(43,934)	-	(102,688)	(173,092)
62,942	509,094	(102,688)	515,239
69,802	179,629	2,014	133,437
305,313	(42,831)	10,689	811,590
\$ 375,115	\$ 136,798	\$ 12,703	\$ 945,027

**CITY OF PAULLINA, IOWA**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,**  
**AND CHANGES IN CASH BALANCES**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**

	<b>Water Utility</b>
<b>Operating Revenues:</b>	
Charges for Services	\$ 198,015
<b>Total Operating Receipts</b>	<u>198,015</u>
<b>Operating Expenses:</b>	
Purchased Power	
Employee Services	77,863
Distribution / Collection	12,083
Supplies	24,288
Repairs	3,106
Capital Outlay	3,936
Administrative and General	23,689
<b>Total Operating Disbursements</b>	<u>144,965</u>
<b>Excess (Deficiency) of Receipts Over Disbursements</b>	53,050
<b>Non-Operating Receipts (Disbursements):</b>	
Interest Income	16,010
Interest Expense	
Principal Payments	
<b>Total Non-Operating Receipts (Disbursements)</b>	<u>16,010</u>
<b>Excess (Deficiency) of Receipts Over Disbursements</b>	69,060
<b>Transfers In</b>	
<b>Transfers Out</b>	<u>(8,200)</u>
<b>Change in Net Assets</b>	60,860
<b>Net Assets Beginning of Year</b>	<u>257,781</u>
<b>Net Assets End of Year</b>	<u><u>\$ 318,641</u></u>
<b>Cash Basis Net Assets</b>	
Reserved for Debt Service	\$ 45,420
Unreserved	273,221
<b>Total Cash Basis Net Assets</b>	<u><u>\$ 318,641</u></u>

Business Type Activities			
Electric Utility	Sewer Utility	Telecom	Total
\$ 729,039	\$ 125,866	\$ 139,546	\$ 1,192,466
729,039	125,866	139,546	1,192,466
303,066			303,066
154,599	80,808		313,270
5,636	14,667		32,386
46,719	3,375		74,382
3,534	2,710		9,350
			3,936
48,537	38,216	950	111,392
562,091	139,776	950	847,782
166,948	(13,910)	138,596	344,684
22,575	1,261	17,086	56,932
(47,475)	(4,106)	(33,938)	(85,519)
(70,000)	(48,000)	(55,000)	(173,000)
(94,900)	(50,845)	(71,852)	(201,587)
72,048	(64,755)	66,744	143,097
7,770	49,309		57,079
(54,024)	(1,000)		(63,224)
25,794	(16,446)	66,744	136,952
272,029	31,889	319,588	881,287
\$ 297,823	\$ 15,443	\$ 386,332	\$ 1,018,239
\$ 169,014	\$ 750	\$ 145,278	360,462
128,809	14,693	241,054	657,777
\$ 297,823	\$ 15,443	\$ 386,332	\$ 1,018,239



CITY OF PAULLINA, IOWA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007

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**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Paullina is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services. The City also provides water, sewer, electrical, and cable tv utilities for its citizens.

**A. Reporting Entity**

For Financial reporting purposes, the City of Paullina has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Paullina has no component units.

**Jointly Governed Organizations**

The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete.

**B. Basis of Presentation**

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. The effect of interfund activity has been removed from these statements. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct

CITY OF PAULLINA, IOWA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007

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**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Project Fund is utilized to account for the development of the City's new business park area.

The City reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Telecom Fund accounts for the operations of the telecom system.

**C. Measurement Focus and Basis of Accounting**

The City of Paullina maintains its financial records on the basis of cash receipts and disbursements which is another comprehensive basis of accounting and the financial

CITY OF PAULLINA, IOWA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007

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**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**Note 2 – CASH AND POOLED INVESTMENTS**

The City's deposits at June 30, 2007 were entirely covered by Federal depository insurance, or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments at June 30 2007; however the City's time deposits were as follows:

Certificates of Deposit	<u>\$625,659</u>
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**CITY OF PAULLINA, IOWA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 3 – BONDS AND NOTES PAYABLE**

The City's computed legal debt limit as of June 30, 2007, is \$1,893,672 of which \$210,000 is committed for outstanding general obligation debt.

The following is a summary of bond transactions of the City for the year ended June 30, 2007:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
	<b>Bonds and Notes Payable by Debt Service Fund</b>	<b>Bonds and Notes Paid by Enterprise Funds</b>
<b>Primary Government</b>		
Bonds and notes payable July 1 2006	\$ 320,000	\$ 1,838,000
Plus: bonds and notes issued	515,000	----
Less: payments	(60,000)	(173,000)
Bonds and notes payable June 30, 2007	<u>\$ 775,000</u>	<u>\$ 1,665,000</u>
Due within one year	<u>\$ 110,000</u>	<u>\$ 180,000</u>

The City of Paullina had the following outstanding bonds as of June 30, 2007:

Bond	Date of Issue	Interest Rate	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2007
General Obligation	05/03/99	4.10 – 4.75%	2010	\$20,000 - \$40,000	\$ 340,000	\$ 120,000
General Obligation	06/01/02	3.60 – 5.20%	2013	\$10,000 - \$15,000	135,000	90,000
Business Park	09/14/06	3.80 – 4.25%	2017	\$45,000 - \$60,000	515,000	515,000
S.A. Capital Loan	06/20/02	3.75% - 5.60%	2011	\$3,000 - \$10,000	93,000	50,000
Telecom	04/22/04	1.80% - 4.80%	2019	\$50,000 - \$85,000	950,000	795,000
Electric	02/01/01	4.70% - 5.60%	2016	\$55,000 - \$110,000	1,200,000	820,000
Sewer		4.19%	2008	\$35,000 - \$50,000	418,000	50,000
Total Bonds Due					<u>\$ 3,651,000</u>	<u>\$ 2,440,000</u>

Annual debt service requirements to maturity of General Obligation Bonds and Notes, revolving loan fund loans, special assessment notes and Revenue Capital Loan Notes are as follows:

Year Ending June 30	General Obligation Bonds and Notes		Special Assessment Capital Loan		Business Park Fund		Electric Revenue Capital Loan Notes Issued 2-1-01	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 55,000	\$ 10,040	\$ 10,000	\$ 2,650	\$ 45,000	\$ 20,600	\$ 75,000	\$ 43,940
2009	55,000	7,510	10,000	2,150	45,000	18,890	80,000	40,115
2010	55,000	4,930	10,000	1,635	45,000	17,180	80,000	35,995
2011	15,000	2,295	10,000	1,105	50,000	15,448	85,000	31,835
2012	15,000	1,545	10,000	560	50,000	13,498	90,000	27,330
2013 – 2017	15,000	780	-	-	280,000	35,931	410,000	57,995
2018 – 2019	-	-	-	-	-	-	-	-
Total	<u>\$ 210,000</u>	<u>\$ 27,100</u>	<u>\$ 50,000</u>	<u>\$ 8,100</u>	<u>\$515,000</u>	<u>\$121,547</u>	<u>\$820,000</u>	<u>\$237,210</u>

CITY OF PAULLINA, IOWA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007

**NOTE 3 – BONDS AND NOTES PAYABLE (Continued)**

Year Ending June 30	Telecommunications Revenue Capital Loan Notes Issued 4-1-04		Sewer Fund Project		Total	
	Principal	Interest	Interest	Interest	Principal	Interest
2008	\$ 55,000	\$ 32,563	\$ 50,000	\$ 2,095	\$ 290,000	\$111,888
2009	55,000	30,995			245,000	99,660
2010	55,000	29,235			245,000	88,975
2011	60,000	27,338			220,000	78,021
2012	60,000	25,117			225,000	68,050
2013 – 2017	345,000	86,002			1,050,000	180,708
2018 – 2019	165,000	11,920			165,000	11,920
Total	\$ 795,000	\$ 243,170	\$50,000	\$2,095	\$2,440,000	\$639,222

In September 2006, the City issued \$515,000 of bond anticipation notes to finance the development of the Business Park. The notes mature June 1, 2017 and accrue interest at up to 4.25%. Payments for these bonds will come from the Debt Service Fund and the Business Park Fund.

**NOTE 4 – PENSION AND RETIREMENT BENEFITS**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$13,695, \$12,931, and \$11,288, respectively, equal to the required contributions for each year.

**NOTE 5 – COMPENSATED ABSENCES**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2007 is as follows:

Type of Benefit	Amount
Vacation	<u>\$5,286</u>

This liability has been computed based on rates of pay as of June 30, 2007.

As sick leave is not payable upon termination, retirement or death, the minimum accumulated sick leave is not presented as part of these financial statements.

**CITY OF PAULLINA, IOWA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**NOTE 6 – RISK MANAGEMENT**

The City of Paullina is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 7 – TELECOMMUNICATIONS PROJECT**

On May 2, 1999 the City of Paullina entered into a Joint Public Improvement agreement with other communities in O'Brien County, under Chapter 28E of the Code of Iowa, to acquire property and construct facilities to provide telecommunication services to the cities. Each party is responsible for retiring its portion of the debt incurred. The Community Cable Television Agency of O'Brien County is controlled by a jointly appointed Board of Directors and is operated apart from the City's operations. The financial information for the Community Cable Television Agency is not included in the City's financial statements.

**NOTE 8 – INTERFUND TRANSFERS**

The detail of interfund transfers for the year ended June 30, 2007, is as follows:

<b>Fund</b>	<b>Transfers In</b>	<b>Transfers Out</b>
General	\$ 72,361	\$ 7,770
Debt Service	106,876	43,934
Urban Renewal – TIF		18,700
Emergency		4,714
Local Option Sales Tax		97,974
Capital Projects		
Water		8,200
Electric	7,770	54,024
Sewer	49,309	1,000
	<u>\$ 236,316</u>	<u>\$ 236,316</u>

Transfers are used to:

1. Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
2. Move revenues restricted to debt service from the fund collecting the revenues to the debt service fund as debt service payments become due.

**NOTE 9 – DEFICIT BALANCE**

The Residential Development fund had a deficit of \$9,135 at June 30, 2007. This deficit will be eliminated through the receipt of tax revenues.

CITY OF PAULLINA, IOWA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007

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**NOTE 10 – SEWER RELINING PROJECT**

The City of Paullina in early 2006 began the process of rehabilitating their sewer system. The project will consist of the re-lining of approximately 28,000 feet of existing sewer line. The City began receiving Iowa Finance Authority funds in April of 2006 to fund the initial costs of the study and engineering costs. The Iowa Finance Authority debt will be satisfied when the City issues \$520,000 of SRF bonds in August-September of 2007. Additionally, the City has been awarded a block grant of \$350,000 to pay the remaining costs of the project. The project is scheduled for a June 30, 2008 completion date. The city council has indicated that an increase in sewer rates will be initiated to repay the bond issue.

## **REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF PAULLINA, IOWA**  
**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,**  
**DISBURSEMENTS AND CHANGES IN BALANCES BUDGET AND ACTUAL**  
**(CASH BASIS)- ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2007**

	Budgeted Amount		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts:				
Taxes	\$ 250,451	\$ 250,451	\$ 254,210	\$ 3,759
Special Assessments	50,533	50,533	40,338	(10,195)
Licenses and Permits	3,131	3,131	3,062	(69)
Intergovernmental	107,154	107,154	104,893	(2,261)
Charges for Services	1,119,132	1,169,341	1,313,409	144,068
TIF Revenue	18,000	18,000	19,176	1,176
Local Option Sales Tax	77,650	77,650	97,940	20,290
Rental of City Property	20,000	20,000	21,086	1,086
Interest	59,620	59,620	104,183	44,563
Miscellaneous	13,770	38,770	54,423	15,653
Total Receipts	1,719,441	1,794,650	2,012,720	218,070
Disbursements				
Public Safety	206,056	212,056	194,672	17,384
Public Works	380,647	587,127	378,086	209,041
Health and Social Services	4,000	4,000	3,850	150
Culture and Recreation	75,928	75,928	73,177	2,751
Community and Economic Development	1,500	1,500	90	1,410
General Government	78,016	84,843	65,456	19,387
Capital Projects	174,000	339,000	337,625	1,375
Debt Service				
Principal Retirement	76,466	60,000	60,000	-
Interest		32,116	32,168	(52)
Business Type / Enterprises	1,171,840	1,171,840	1,106,301	65,539
Total Disbursements	2,168,453	2,568,410	2,251,425	316,985
Excess (deficiency) of receipts over disbursements	(449,012)	(773,760)	(238,705)	535,055
Other financing sources (uses):				
Proceeds from Debt Financing		515,716	509,094	(6,622)
Transfers In	216,083	216,083	236,316	20,233
Transfers (Out)	(215,583)	(252,583)	(236,316)	16,267
Total other financing sources (uses)	500	479,216	509,094	29,878
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	\$ (448,512)	\$ (294,544)	\$ 270,389	\$ 564,933
Balances Beginning of Year	1,591,460	1,591,460	1,692,877	
Balances End of Year	\$ 1,142,948	\$ 1,296,916	\$ 1,963,266	

**CITY OF PAULLINA, IOWA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –**  
**BUDGETARY REPORTING**  
**JUNE 30, 2007**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annual adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budget disbursements by \$399,957. The budget amendment is reflected in the final budgeted amounts.

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## **OTHER SUPPLEMENTARY INFORMATION**

CITY OF PAULLINA, IOWA  
COMBINING STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS  
Governmental Nonmajor Funds  
For the Year Ended June 30, 2007

	Emergency	Employee Benefits	Local Option Sales Tax	Residential Development	Total Governmental Nonmajor Funds
Receipts:					
Taxes	\$ 4,638	\$ 45,031	\$ -	\$ -	\$ 49,669
Local Option Sales Tax	-	-	97,940	-	97,940
Interest on Investments	76	785	34	-	895
Total Receipts	4,714	45,816	97,974	-	148,504
Disbursements:					
Public Safety	-	39,588	-	-	39,588
Public Works	-	153	-	-	153
Culture and Recreation	-	2,963	-	-	2,963
General Government	-	1,098	-	-	1,098
Total Disbursements	-	43,802	-	-	43,802
Excess (Deficiency) of Receipts over Disbursements	4,714	2,014	97,974	-	104,702
Other financing sources (uses):					
Transfers Out	(4,714)	-	(97,974)	-	(102,688)
Total other financing sources	(4,714)	-	(97,974)	-	(102,688)
Net Change in Fund Balances	-	2,014	-	-	2,014
Fund Balances (Deficit) Beginning of Year	-	19,824	-	(9,135)	10,689
Fund Balances End of Year	\$ -	\$ 21,838	-	\$ (9,135)	\$ 12,703

## CITY OF PAULLINA, IOWA

## SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -

All Governmental Funds

For the Four Years Ended June 30, 2007

	2007	2006	2005	2004
Receipts:				
Property tax	\$ 254,210	\$ 226,642	\$ 225,099	\$ 211,872
Tax increment financing revenue	19,176	21,039	21,507	17,614
Other city tax	97,940	76,864	76,608	73,613
Licenses and permits	3,062	2,288	2,100	3,624
Use of money and property	68,337	51,806	30,286	21,065
Intergovernmental	104,893	102,560	100,753	103,234
Charges for service	120,943	118,724	107,011	96,680
Special Assessments	40,338	83,416	59,413	75,451
Miscellaneous	54,423	14,265	51,887	60,055
Sale of Capital Assets	-	500	80,245	-
Total	763,322	698,104	754,909	663,208
Disbursements:				
Operating:				
Public safety	194,672	190,849	198,757	228,346
Public works	378,086	144,941	141,432	203,043
Health and Social Services	3,850	3,750	3,750	3,750
Culture and recreation	73,177	87,839	75,097	80,087
Community and economic development	90	1,651	1,000	-
General government	65,456	68,662	63,849	67,830
Debt service	92,168	73,863	113,649	117,557
Capital projects	337,625	38,312	421,454	-
Total	\$ 1,145,124	\$ 609,867	\$ 1,018,988	\$ 700,613



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City Council  
City of Paullina  
Paullina, Iowa

We have audited the financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Paullina, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City of Paullina's basic financial statements listed in the table of contents and have issued my report thereon dated January 24, 2008. The financial statements were prepared on the cash basis of accounting which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance:

As part of obtaining reasonable assurance about whether the City of Paullina's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract and grant agreements, non-compliance with which could have a direct and material on the determination of financial statement amounts. However, providing an opinion of compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered the City of Paullina's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Paullina's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Paullina's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Paullina's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the City of Paullina's financial statements that is more than inconsequential will not be prevented or detected by the City of Paullina's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as Items II-A-07 and II-B-07 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Paullina's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above are material weaknesses.

The City of Paullina's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Paullina's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Paullina and other parties to whom the City of Paullina may report. This report is not intended to be used and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the City of Paullina during the course of our audit. If you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

*Williams & Infanger, P.C.*  
Certified Public Accountants

Le Mars, Iowa  
January 24, 2008

CITY OF PAULLINA, IOWA  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007

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**Part I – Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**Part II – Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**SIGNIFICANT DEFICIENCIES:**

**II-A-07 Financial Accounting – Segregation of Duties**

Observation – The City accountant is involved in almost all phases of the finance operations, including check preparation, preparation of journal entries, as well as financial reporting and statements.

Recommendation – With a limited number of personnel, segregation of duties is difficult. The City should implement management review procedures which we feel would aid in improving the internal control of the City.

Response – The City feels that additional personnel would not be cost effective. However, management will monitor transactions on a regular basis.

Conclusion – Response accepted.

**II-B-07 Financial Reporting**

Observation – During the audit, we identified material amounts of interest income not recorded in the City's financial statements. Adjustments were subsequently made by the City to properly include these amounts in the financial statements.

Recommendation – The City should implement procedures to ensure all cash transactions are identified and included in the City's financial statements.

Response – We will double check these in the future to avoid missing any cash transactions.

Conclusion – Response accepted.



CITY OF PAULLINA, IOWA  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007

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**Part III – Other Findings Related to Statutory Reporting**

III-A-07 Certified Budget – Disbursements for the year ended June 30, 2007 exceeded the amount budgeted in the Debt Service Fund. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered under annual or continuing appropriation.

Recommendation – The budget should have been amended timely in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-B-07 Questionable Disbursement – We noted no disbursements that did not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

III-C-07 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-07 Business Transactions – There were no business transactions between the City and City officials or employees noted.

III-E-07 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

III-F-07 Council Minutes – No transactions were found that I believe should have been approved in the Council minutes but were not.

III-G-07 Revenue Notes – The City was in compliance with the requirements of its revenue notes.

III-H-07 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policies.

III-I-07 Financial Condition – The Residential Development Fund had a deficit balance of \$9,135 at June 30, 2007.

Recommendation – The City should consider alternatives to eliminate this deficit.

Response – The deficit will be eliminated through the receipt of tax revenues.

Conclusion – Response accepted.

CITY OF PAULLINA, IOWA  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007

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**Part III – Other Findings Related to Statutory Reporting (Continued)**

III-J-07 Debt Service Fund Balance – The City's Debt Service Fund has accumulated a fund balance of \$375,115, an amount in excess of the amount needed.

Recommendation – The City should consider using the amount in the Debt Service Fund to pay debt rather than continuing to levy taxes at current rates.

Response – The City will use what has been accumulated in the Debt Service Fund and not levy as much for future debt service payments.

Conclusion – Response accepted.